War ahead?

As China and the mercurial current occupant of the White House lob tariff threats against each other, plane makers, parts makers, MROs and others sit and worry about what it will mean for their businesses and their supply chains. **Matt Driskill** takes a look at where things stand.

AVIATION COMPANIES IN THE UNITED STATES AND CHINA seem to be taking a wait-and-see attitude as Washington threatens Beijing with US$200 billion in tariffs on various goods. The White House announced in June that it would impose 25 percent in tariffs on Chinese imported goods with a first round of tariffs on 800 products worth US$34 billion coming into effect in July and the remainder coming into effect at a later date. The affected goods include aircraft parts, which could pose a huge problem for Boeing and other companies because China is a huge market for not only finished aircraft, but also US components like engines, avionics and other parts that feature heavily in China's domestic aircraft development programme.

The Chinese government has said it will in turn impose tariffs on US$34 billion worth of American products and another US$16 billion would be added at a later date. Boeing is one major US company that has millions of dollars' worth of orders pending with Chinese airlines.

Boeing officials told *Asian Aviation* that "We are currently assessing the impact the announced US tariffs on Chinese products and any reciprocal action could have on our supply chain and commercial business. We will continue to engage with leaders in both countries to urge a productive dialogue to resolve trade differences, highlighting the mutual economic benefits of a strong and prosperous aerospace industry. We are staying very engaged on this topic. We operate in a global environment, and we are going to stay very close to our customers and the governments as we proceed, evaluating the impact of any action on our suppliers and global trading relationships. Having engaged with leaders in both China and the United States, we think there is a true desire to have a productive, fair and mutually-beneficial trading relationship.

Airbus, which also has millions of dollars' worth of orders with China, told *Asian Aviation* that "it is not for us to comment on diplomatic matters and bilateral trade disputes" and "generally, there is no winner in a trade war".

◄ *The Boeing MAX 8 is one of the company's most popular models but China could crimp sales if it changes its tariff stance on aviation products.*

Tom de Geytere, chief sales officer at AJW, said even if a trade war starts with tariffs imposed on aviation goods, "we think that the effect will not be felt until about a year from now when suppliers to the OEMs have had a chance to update their prices and OEMs in turn update their (list prices)".

China is a key market for Boeing and other plane makers like Airbus, Bombardier, and ATR. China alone accounted for 12.8 percent of Boeing's total revenue in 2017. US aerospace exports to China totalled US$16.3 billion last year, while imports came to only US$956 million in parts, according to Teal Group analysis of International Trade Commission data.

Some analysts believe China may bypass Boeing because the country's aviation sector is a key development area for the country and millions of Chinese have taken to the skies in recent years both domestically and internationally. China's development of its own domestic aircraft industry also relies heavily on components sold by Boeing.

China however, did warn US trade officials in March that it would respond to US threats with 25 percent tariffs on US aircraft weighing in the range of 15,000 to 45,000 kilograms when empty. That category included the largest Gulfstream luxury jets and older and smaller 737 models but stopped just shy of penalizing the 737 Max 8, Boeing's best-selling new model. Analysts said the weight restrictions were a clear warning to the US that if it went too far, China would deliver a damaging blow to an American corporate giant.

China is trying to break into a US$1.1 trillion market that is virtually owned by Boeing and Airbus and is developing the medium-range C919 passenger jet, which relies heavily on equipment and systems from North American and European suppliers. The jet is designed to compete with Boeing's 737 and the Airbus A320. Comac has announced 785 orders for the C919, almost all from Chinese airlines. Comac also has an order for the jet from GE Capital Aviation Services. GE is one of the C919's contractors, supplying onboard maintenance and flight-data recording systems through a joint venture with Aviation Industry of China. The plane's engines come from CFM International, GE's joint venture with Safran Aircraft Engines. Other suppliers include Honeywell International and United Technologies.

Comac is also trying to win customers for its smaller ARJ21 regional jet, which began commercial operation in 2016. So far, Comac has delivered just four of the planes, all to Chengdu Airlines, based in Sichuan.

Another reason the China market is so important is that Chinese airlines are forecast to purchase more than 7,000 planes worth US$1.1 trillion over the next 20 years, according to Boeing data. "China's continuous economic growth, significant investment in infrastructure, growing middle-class and evolving airline business models support this long-term outlook," Randy Tinseth, Boeing Commercial Airplanes vice president of marketing, said when he released the company's outlook in 2017. "China's fleet size is expected to grow at a pace well above the world average, and almost 20 percent of global new airplane demand will be from airlines based in China," Tinseth said in a statement.

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RANDY TINSETH, BOEING

Boeing said almost three-quarters of the orders would be for single-aisle aircraft like the 737, thanks to strong demand for travel within China and throughout Asia. The widebody fleet would require 1,670 new planes, Boeing said.

Data from aviation consultancy IBA Group showed Chinese airlines, leasing companies and banks have firm orders for 270 Boeing 737s, including 188 Max 8s, and another 37 orders for 737-800s, one 737-700-based Boeing Business Jet and 40 737s of unspecified types, all worth about US$36 billion at list prices. IBA data also shows 160 Boeing 737s as ordered with no type or customer information.

The manufacturers of commercial jets are not the only ones who could be affected by a trade war. Business jet makers are also worried. At the end of 2017, there were 1,179 jets in the Asia-Pacific region, up 2.1 percent from a year earlier, according to aviation consultancy Asian Sky Group. The largest market is China, which has 339 planes. Bombardier, Gulfstream and Textron's Cessna are the top three manufacturers in the region, respectively holding a 26 percent, 25 percent and 19 percent share of the fleet, ASG reported.

At this year's ABACE show in Shanghai, Gulfstream's senior vice president of worldwide sales, Scott Neal, told reporters the company had raised its concerns about the potential tariffs with industry organisations but that it would be premature to talk about any impact. Khader Mattar, Bombardier's vice president of sales for the Middle East, Africa, Asia-Pacific and China, told reporters there was no sign the proposed tariffs were impacting sentiment for the Canadian manufacturer's business aircraft. "But we will keep monitoring the situation and we will act accordingly," he said. ✈

BOEING UNFILLED ORDERS

MODEL	ORDERS	DELIVERIES	UNFILLED
737	1350	1089	261
777	99	93	6
787	79	61	18
		Total unfilled orders for China	285

Source: Boeing